

**MAHASKA COUNTY SOLID WASTE
MANAGEMENT COMMISSION**

Independent Auditors' Reports
Basic Financial Statements and
Required Supplementary Information
Schedule of Findings

June 30, 2004

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

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MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Officials

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Greg Gordy	Chairperson	Mahaska County
Edward Elder	Vice-Chairperson	Fremont
Keith Garrett	Member	City of Oskaloosa
Edwin Davis	Member	City of New Sharon
Wayne Hook	Member	City of Oskaloosa
Connie Rodgers	Member	City of University Park
Peggy Wright	Member	Mahaska County
Alan DeBruin	Member	Mahaska County
Quentin Morrow	Member	City of Leighton
Gordon Lindblom	Member	City of Barnes City
John Jacobs	Member	City of Rose Hill
Richard Thomas	Member	City of Beacon
Steve Thomas	Manager	
Ray Gasperi	Secretary-Treasurer	City of Keomah Village

Independent Auditors' Report

To the Members of Mahaska County Solid
Waste Management Commission

We have audited the accompanying financial statements of Mahaska County Solid Waste Management Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mahaska County Solid Waste Management Commission at June 30, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8, during the year ended June 30, 2004, Mahaska County Solid Waste Management Commission adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2004 on our consideration of Mahaska County Solid Waste Management Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Theobald, Donohue & Thompson, P.C.

Oskaloosa, Iowa
August 27, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mahaska County Solid Waste Management Commission provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Commission's operating revenues increased 48%, or \$281,754, from fiscal 2003 to fiscal 2004. Gate fees increased and other revenues decreased.
- The Commission's operating expenses were 22%, or \$147,566, more in fiscal 2004 than in fiscal 2003.
- The Commission's net assets increased 4.3%, or \$118,918, from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The Mahaska County Solid Waste Management Commission is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Mahaska County Solid Waste Management Commission's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Commission's financial activities.

The Statement of Net Assets presents information on the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Commission's operating revenues and expenses, non-operating revenues and expenses and whether the Commission's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Commission's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Commission financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's net assets for fiscal 2004 totaled approximately \$2,884,000. This compares to approximately \$2,765,000 for fiscal 2003. A summary of the Commission's net assets is presented below.

Net Assets		
	June 30,	
	2004	2003
Current assets	\$ 1,802,604	1,792,720
Restricted investments	849,069	505,980
Capital assets at cost, less accumulated depreciation	632,118	743,605
Total assets	3,283,791	3,042,305
Current liabilities	79,506	31,559
Non-current liabilities	320,198	245,577
Total liabilities	399,704	277,136
Net assets:		
Invested in capital assets	632,118	743,605
Restricted	849,069	505,980
Unrestricted	1,402,900	1,515,584
Total net assets	\$ 2,884,087	2,765,169

A portion of the Commission's net assets (29%) is the restricted for closure and postclosure care. State and federal laws and regulations require the Commission to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. The invested in capital assets (22%, e.g., land, buildings and equipment) are resources allocated to capital assets. The remaining net assets (49%) are the unrestricted net assets that can be used to meet the Commission's obligations as they come due.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are received for gate fees from accepting solid waste and assessments from the residents of the County. Operating expenses are expenses paid to operate the landfill. Non-operating revenues are for interest income and unrealized gain on investment. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the year ended June 30, 2004 is presented below:

Changes in Net Assets		
	Year Ended June 30,	
	2004	2003
Operating revenue:		
Gate fees	\$ 857,996	578,703
Other operating revenue	7,121	4,660
Total operating revenues	<u>865,117</u>	<u>583,363</u>
Operating expenses:		
Salaries	178,640	172,001
Employee benefits	56,449	45,661
Machinery maintenance, labor and parts	40,620	20,685
Oil and gas	31,340	27,819
Long range planning and engineering	32,947	9,410
Site maintenance	67,393	51,635
Site utilities	5,502	6,718
Office expense	6,680	6,612
Legal and accounting	2,798	2,947
Insurance	23,777	8,452
Closure and postclosure care costs	74,621	45,331
Planning and recycling expenses	47,269	47,622
Iowa Department of Natural Resources tonnage fees	74,139	38,975
Depreciation	115,471	169,847
Miscellaneous	46,082	2,447
Total operating expenses	<u>803,728</u>	<u>656,162</u>
Operating income (loss)	<u>61,389</u>	<u>(72,799)</u>
Non-operating revenues (expenses):		
Interest income	52,964	61,684
Unrealized gain (loss) on investment	4,565	(4,399)
Gain on sale of equipment	-	3,650
Net non-operating revenue	<u>57,529</u>	<u>60,935</u>
Change in net assets	118,918	(11,864)
Net assets beginning of year	<u>2,765,169</u>	<u>2,777,033</u>
Net assets end of year	\$ <u>2,884,087</u>	<u>2,765,169</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

In fiscal 2004, operating revenues increased by \$281,754 or 48%, primarily a result of gate fees increasing by approximately \$279,000 due to an increase in the volume of collections. Operating expenses increased by \$147,566, or 22%. The increase was primarily a result of an increase of estimated closure and postclosure care costs of approximately \$29,000, Iowa Department of Natural Resources tonnage fees of approximately \$35,000, long range planning and engineering of approximately \$24,000 and machinery maintenance, labor and parts of approximately \$20,000.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes gate fees and assessments reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes lease payments and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposits and interest income.

CAPITAL ASSETS

At June 30, 2004, the Commission had approximately \$632,000 invested in capital assets, net of accumulated depreciation of approximately \$870,000. Depreciation charges totaled \$115,471 for fiscal 2004. More detailed information about the Commission's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

Mahaska County Solid Waste Management Commission continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for the Commission officials. Some of the realities that may potentially become challenges for the Commission to meet are:

- Facilities at the Commission require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.
- Annual deposits required to be made to closure and postclosure accounts are based on constantly changing cost estimates and the number of tons of solid waste received at the facility.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mahaska County Solid Waste Management Commission, 2979 Highway 63, Oskaloosa, Iowa.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Statement of Net Assets June 30, 2004

Assets

Current assets:	
Cash	\$ 185,136
Investments	1,453,135
Accounts receivable	146,212
Accrued interest receivable	18,121
Total current assets	<u>1,802,604</u>
Restricted assets:	
Investments	849,069
Capital assets, net of \$869,737 accumulated depreciation	<u>632,118</u>
	<u>\$ 3,283,791</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 75,317
Other payables	4,189
Total current liabilities	<u>79,506</u>
Non-current liabilities:	
Estimated liability for landfill closure and postclosure care costs	<u>320,198</u>
Total liabilities	<u>399,704</u>
Net assets:	
Restricted for:	
Closure	90,161
Postclosure care	758,908
Unrestricted	1,402,900
Invested in capital assets	632,118
Total net assets	<u>2,884,087</u>
	<u>\$ 3,283,791</u>

See accompanying notes to financial statements.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Statement of Revenues, Expenses and Changes in Net Assets For the Year Ended June 30, 2004

Operating revenues:	
Gate fees	\$ 857,996
Finance charges	6,960
Other operating revenues	161
Total operating revenues	<u>865,117</u>
Operating expenses:	
Salaries	178,640
Employee benefits	56,449
Machinery maintenance, labor and parts	40,620
Oil and gas	31,340
Long range planning and engineering	32,947
Site maintenance	67,393
Site utilities	5,502
Office expenses	6,680
Legal and accounting	2,798
Insurance	23,777
Closure and postclosure care costs	74,621
Planning and recycling expenses	47,269
Iowa Department of Natural Resources tonnage fees	74,139
Depreciation	115,471
Miscellaneous	46,082
Total operating expenses	<u>803,728</u>
Operating income	<u>61,389</u>
Non-operating revenues:	
Interest income	52,964
Unrealized gain on investment	4,565
	<u>57,529</u>
Change in net assets	118,918
Net assets, beginning of year	<u>2,765,169</u>
Net assets, end of year	<u>\$ 2,884,087</u>

See accompanying notes to financial statements.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Statement of Cash Flows For the Year Ended June 30, 2004

Cash flows from operating activities:	
Cash received from gate fees	\$ 789,479
Cash received from finance charges	6,960
Cash received from other operating receipts	161
Cash payments to suppliers for goods and services	(389,137)
Cash payments to employers for services	(176,552)
Net cash provided (used) by operating activities	<u>230,911</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(3,984)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,984)</u>
Cash flows from investing activities:	
Purchase of certificates of deposit	(1,139,815)
Redemption of certificates of deposit	966,593
Net cash provided (used) by investing activities	<u>(173,222)</u>
Net increase (decrease) in cash and cash equivalents	53,705
Cash and cash equivalents at beginning of year	<u>131,431</u>
Cash and cash equivalents at end of year	\$ <u><u>185,136</u></u>
Reconciliation of change in net assets to net cash provided (used) by operating activities:	
Change in net assets	\$ <u>118,918</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	115,471
Closure and postclosure costs	74,621
Interest income reinvested	(49,057)
Unrealized gain on investment	(4,565)
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(68,517)
(Increase) decrease in accrued interest receivable	(3,907)
Increase (decrease) in payables	47,947
Total adjustments	<u>111,993</u>
Net cash provided (used) by operating activities	\$ <u><u>230,911</u></u>

See accompanying notes to financial statements.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements June 30, 2004

Note 1 – Summary of Significant Accounting Policies

Mahaska County Solid Waste Management Commission was formed in 1973 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Commission is to operate the sanitary landfill in Mahaska County for use by all residents of the County.

The Commission is composed of one representative from each of the nine member cities and one representative from Mahaska County. The member cities are: Oskaloosa, University Park, Beacon, Keomah Village, New Sharon, Rose Hill, Fremont, Leighton and Barnes City. Each member shall be entitled to one vote, except Oskaloosa, which has five, and Mahaska County, which has four.

The Association's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Mahaska County Solid Waste Management Commission has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Commission. Mahaska County Solid Waste Management Commission has no component units, which meet the Government Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Mahaska County Solid Waste Management Commission are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Commission distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash and Cash Equivalents – The Commission considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, they have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2004 included certificates of deposit of \$1,453,135.

Restricted Assets – Funds set aside for payment of closure and postclosure care costs are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost or estimated historical cost where historical cost is not available. Capital assets are defined by the Commission as assets with initial, individual costs in excess of \$500. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings and lease improvements are amortized over 20-39 years and equipment is depreciated over a 5-7 year life.

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MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Net Investments (Continued)

The cost of repairs and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2004.

Compensated Absences – Commission employees accumulated a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Commission's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2004, which was \$3,905 and the Commission's share of applicable IPERS was \$225 and FICA/Medicare was \$299.

Commission employees are compensated at December 31, for unused, accumulated sick days in excess of 80 days, not to exceed 12 days. The Commission's liability for the excess accumulated sick leave has been computed based on rates of pay in effect at June 30, 2004, which was \$1,328 and the Commission's share of applicable IPERS was \$76 and FICA/Medicare was \$102.

These amounts have not been reflected as a liability.

E. Accounts Receivable

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions.

The Company's policy is to accrue interest on trade receivables 30 days after invoice date. A receivable is considered past due if the Company has not received payments for 90 days. At that time, the Company will discontinue accruing interest and turn the account over for collection. If a payment is made after it has been turned over for collection, the Company will apply the payment to the outstanding principal first and resume accruing interest. Accounts are written off as uncollectible if no payments are received 90 days after they have been turned over for collection.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 2 – Cash and Investments

The Commission's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Commission had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Note 3 – Pension and Retirement Benefits

The Commission contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Commission is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The Commission's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$9,571, \$9,491, and \$8,823, respectively, equal to the required contributions for each year.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 4 – Capital Assets

A summary of capital assets at June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land and improvements	\$ 82,200	-	-	82,200
Capital assets being depreciated:				
Buildings	252,511	1,984	-	254,495
Equipment and vehicles	1,163,160	2,000	-	1,165,160
Total capital assets being depreciated	1,415,671	3,984	-	1,419,655
Less accumulated depreciation for:				
Buildings	108,954	7,313	-	116,267
Equipment and vehicles	645,312	108,158	-	753,470
Total accumulated depreciation	754,266	115,471	-	869,737
Total capital assets being depreciated, net	661,405	(111,487)	-	549,918
Total capital assets, net	\$ 743,605	(111,487)	-	632,118

Note 5 – Closure and Postclosure Care Costs

To comply with federal and state regulations, the Commission is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and postclosure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year postclosure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements

(continued)

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 5 – Closure and Postclosure Care Costs (Continued)

provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs would consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

The total costs for Mahaska County Solid Waste Management Commission have been estimated at \$148,199 for closure and \$1,247,431 for postclosure for a total of \$1,395,630 as of June 30, 2004, and the portion of the liability that has been recognized is \$320,198. These amounts are based on what it would cost to perform all closure and postclosure care during the year ended June 30, 2004. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The estimated remaining life of the landfill is approximately 30 years and the capacity used at June 30, 2004 is 23 percent.

Chapter 455B.306(8)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure care accounts to accumulate resources for the payment of closure and postclosure care costs. The Commission has begun accumulating resources to fund these costs and, at June 30, 2004, assets of \$849,069 are restricted for these purposes of which \$90,161 is for closure and \$758,908 is for postclosure care. They are reported as restricted investments and restricted net assets on the Statement of Net Assets.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and postclosure care costs are not fully funded, the Commission is required to demonstrate financial assurance for the unfunded costs. The Commission has adopted the dedicated fund mechanism.

Chapter 57-111.8(7) of the IAC allows a government to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and postclosure care account requirements. Accordingly, the landfill is not required to establish closure and postclosure care accounts in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 6 – Solid Waste Tonnage Fees Retained

The Commission has established an account for restricting and using solid waste tonnage fees retained by the Commission in accordance with Chapter 455B.310 of the Code of Iowa.

As of June 30, 2004, there were no unspent amounts retained by the Commission and restricted for the required purposes.

Note 7 – Local Government Risk Pool

Mahaska County Solid Waste Management Commission has entered into an agreement, as allowed by Chapter 331.301 of the Code of Iowa, to become a member in a local government risk pool. The Pool was formed July 1, 1987 to provide worker's compensation and property/casualty insurance to counties in the State of Iowa. At present, ten counties are members of the Pool. The risk pool was created for the purpose of providing and maintaining self-insurance benefits on a group basis substantially at cost. There have been no reductions in insurance coverage from prior years.

Each member is responsible for the payment of member contributions to the risk pool on an annual basis. Member contributions to the risk pool are recorded as expenditures from the operating funds at the time of payment to the risk pool. In the event of payment of any loss by the risk pool, the risk pool is subrogated to the extent of such payment to all the rights of the member county against any person or other entity legally responsible for damages for said loss, and in such event, the member is responsible for rendering all reasonable assistance, other than pecuniary assistance, to affect recovery. The risk pool is responsible for paying the premiums on the insurance policies when due; to pay claims in accordance with the various coverages and to make other payments as required by applicable law; to establish and accumulate a reserve or reserves which are deemed advisable or required by law to carry out the purpose of the risk pool; and to pay all reasonable and necessary expenses for administering the risk pool and fund.

Initial risk of loss for the self-insured coverages is retained by the risk pool. The risk pool obtained a reinsurance policy for the year ended June 30, 2004 which covers exposure of specific losses in excess of \$350,000 per occurrence up to a maximum of \$5,000,000 per occurrence, including the retention of the pool, for general and automobile liability. The workman's compensation policy obtained for the year ended June 30, 2004 covered exposures of \$350,000, up to the above stated maximum including retention of the pool. The coverage for workman's compensation was statutory. The risk pool fund records a liability for unpaid claims based on estimates of reported and incurred but not reported claims and related loss adjustments expenses. At June 30, 2004, 2003, 2002, 2001, 2000 and 1999 the risk pool fund reported a surplus of pool assets over liabilities.

(continued)

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Notes to Financial Statements (Continued) June 30, 2004

Note 7 – Local Government Risk Pool (Continued)

Members retain the risk of claims, if any, exceeding maximum reinsurance coverage and the amount of surplus maintained in the risk pool, by means of an assessment that would be charged to the member in addition to the premium contributions. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since commencement of the risk pool.

The Commission's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Commission's annual contributions to the Pool for the year ended June 30, 2004 were \$15,758. Initial membership into the risk pool is for a mandatory three year period. Subsequent to the initial term, a member may withdraw at the end of any given fiscal year.

Note 8 – Accounting Change

For the year ended June 30, 2004, the Commission implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Implementation of these statements had no effect on the beginning balances of the Commission.

MAHASKA COUNTY SOLID WASTE
MANAGEMENT COMMISSION

Independent Auditors' Report on Compliance and on
Internal Control over Financial Reporting

June 30, 2004

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Members of Mahaska County Solid
Waste Management Commission:

We have audited the financial statements of Mahaska County Solid Waste Management Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mahaska County Solid Waste Management Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mahaska County Solid Waste Management Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mahaska County Solid Waste Management Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 1) on the Schedule of Findings is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the members and customers of Mahaska County Solid Waste Management Commission and other parties to whom the Commission may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mahaska County Solid Waste Management Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Theobald, Donohue & Thompson, P.C.

Oskaloosa, Iowa
August 27, 2004

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Schedule of Findings Year Ended June 30, 2004

Findings Related to the Financial Statements:

Reportable Conditions:

- 1) Segregation of Duties – An important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties, which are incompatible. We noted that one person has control over each of the following areas for the Commission:
 1. Accounting System – record keeping for revenues and expenses, and related reporting.
 2. Receipts – collecting, depositing, journalizing and posting.
 3. Payroll – changes to master list, preparation and distribution.
 4. Bank Reconciliation – preparation and maintenance of accounting records.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Commission should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Due to the limited number of office employees, segregation of duties is very difficult, however, we will have the manager or another official review receipts, posting, and payroll on a test basis and bank reconciliations monthly.

Conclusion – Response accepted.

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Schedule of Findings (Continued) Year Ended June 30, 2004

Other Findings Related to Statutory Reporting:

- (A) Official Depositories – the Commission has adopted a resolution naming official depositories and the depository amount was not exceeded.
- (B) Questionable Expenses – No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (C) Travel Expense – No expenditures of money for travel expenses of spouses of Commission officials or employees were noted.
- (D) Board Minutes – No transactions were found that we believe should have been approved in the Commission minutes but were not.
- (E) Deposits and Investments – No instance of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Commission's investment policy were noted.
- (F) Solid Waste Tonnage Fees Retained – During the year ended June 30, 2004, the Commission used or retained the solid waste fees in accordance with Chapter 455B.310 of the Code of Iowa.
- (G) Financial Assurance – The Commission has demonstrated financial assurance for closure and postclosure care costs by establishing a local government dedicated fund as provided in Chapter 111.6(8) of the Iowa Administrative Code. The calculation is made as follows:

	<u>Closure</u>	<u>Postclosure</u>
Total estimated costs for closure and postclosure care	\$ 148,199	1,247,431
Less: Balance of funds held in the local dedicated fund at June 30, 2003 plus amount delinquent for prior year	(69,417)	(584,305)
	78,782	663,126
Divided by the number of years remaining in the pay-in period	÷ 4	4
Required payment into the local dedicated fund for the year ended June 30, 2004	19,696	165,781
Balance of funds held in the local dedicated fund at June 30, 2003	\$ 69,417	584,305
Required balance of funds held in the local dedicated fund at June 30, 2004	\$ 89,113	750,086
Amount Commission has restricted and reserved for closure and postclosure care at June 30, 2004	\$ 90,161	758,908

MAHASKA COUNTY SOLID WASTE MANAGEMENT COMMISSION

Staff

This audit was performed by:

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